F.Y.I.

FOR YOUR INFORMATION

UNEMPLOYMENT RATE DEMYSTIFIED

Between 1992 and 1997 Idaho's unemployment rate was lower than the nation's. The graph on the following page shows Idaho's and the nation's seasonally adjusted unemployment rate from 1992 through July 2001. As Idaho's economy became more dependent on the national economy and the natural resource based industries fell upon hard times, Idaho's unemployment rate began to exceed the national rate. The first Friday of the month always brings a great deal of interest from the public, especially the media, when the unemployment rate for Idaho and the nation is released. The unemployment rate is used as a key indicator of Idaho's economic well being. With the announcement of layoffs and, at times, a declining unemployment rate, everyone wants to know WHY?

Recently I read an article written by Sam McClary, Assistant Director of Labor Market Information in South Carolina, that explained the mysteries of the unemployment rate in basic, understandable language. I would like to thank South Carolina for allowing me to reprint this article as it relates to Idaho.

THE UNEMPLOYMENT RATE – BEHIND THE MYSTERY

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As far as public interest is concerned, the unemployment rate is probably the single most important figure released the Idaho Department of Labor's Public Affairs Bureau. The unemployment rate is used as a key indicator of our state's economic well being. It influences financial markets and, to some extent, interest rates. Business and community leaders use the unemployment rate to make decisions regarding site locations and plant expansions. Government officials use the unemployment rate as a basis for awarding government procurement contracts and to allocate millions of dollars in job training and economic development funds. Despite all the focus on the unemployment rate, it remains one of the most misunderstood and often misused numbers that exists. Just where does the unemployment rate come from, and what does it mean?

Common Misconceptions

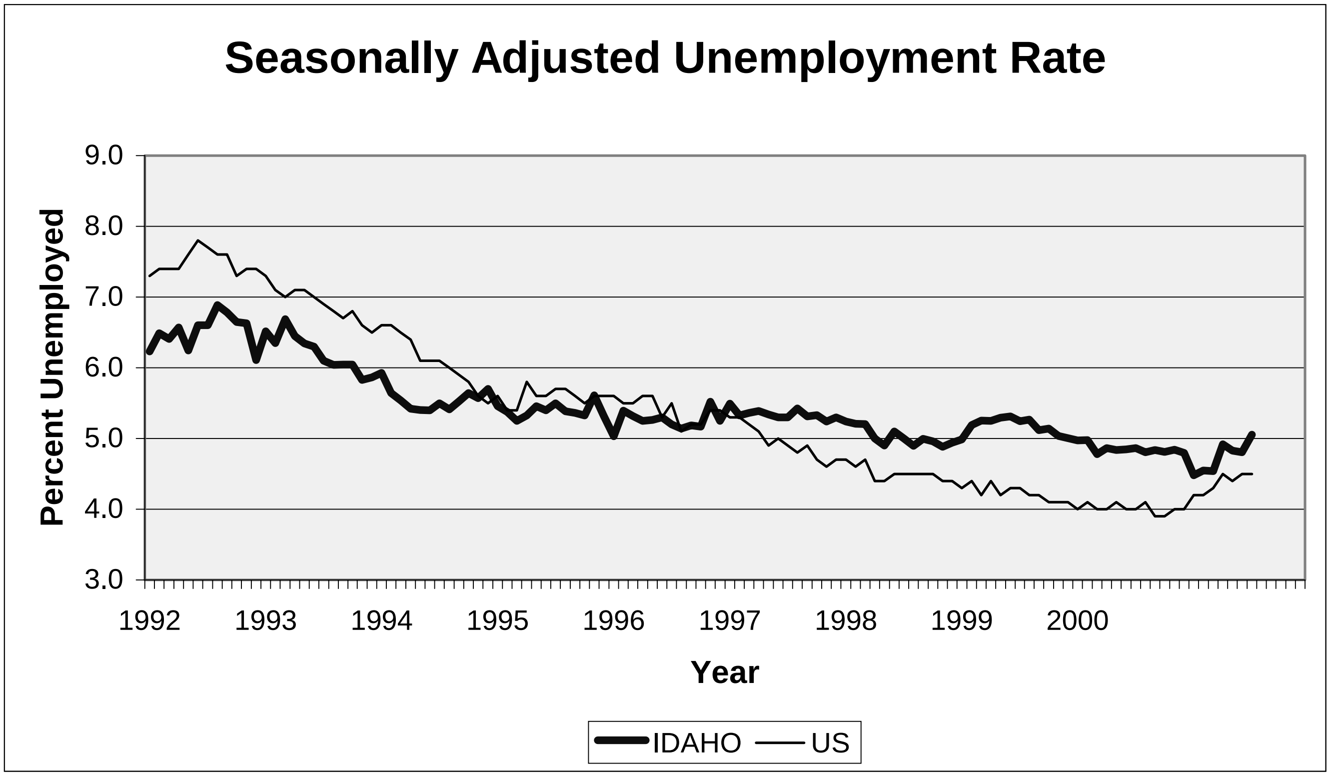
Perhaps the most common misconception about the unemployment rate is that it just includes individuals filing unemployment insurance (UI) claims. Actually, UI claimants comprise only about 20 to 30 percent of the total unemployed. Another misconception is that the monthly unemployment rate represents unemployment for the entire month. In reality, the jobless rate references the week of the month that includes the 12th. This is called the standard survey reference week. Unemployed individuals are also counted where they live, not where they work. This means that a layoff in a particular county can, because of commuting, impact the unemployment rate in a number of counties.

Who is Counted As Unemployed?

The definition of who is counted as employed and unemployed is determined by the U.S. Bureau of Labor Statistics (BLS). These definitions are based on objective, measurable criteria, and are used nationwide. This means that the criteria for defining an unemployed person in Idaho is the same as for an unemployed person in California or South Carolina or anywhere else in the nation. To be counted as **employed**, a person must be 16 years old or over and worked for pay or profit during the survey week. This includes part-time and temporary work as well as regular full-time, year-round employment. To be counted as **unemployed**, a person must be 16 years old or over and have no job at all during the survey week. However, that person must be able, available, and actively looking for work. The sum of the employed and unemployed comprise the labor force. The unemployment rate is the ratio of the total unemployed to the total labor force. The mathematical formula is: Employed + Unemployed = Labor Force and (Unemployed / Labor Force) X 100 = Unemployment Rate.

Where Do These Numbers Come From?

Each month, BLS designates the Census Bureau to conduct a survey of approximately 60,000 households across the nation called the Current Population Survey (CPS). The CPS, which includes households in each state, is conducted during the week after the standard survey reference week. During the survey, the census interviewer determines the employment status of all members of the household 16 years old and over for the previous week. They essentially ask, "What were you doing last week?" If an individual held a job, he or she will be classified as employed; if the individual had no job, but was able, available, and actively looking for one, he or she will be classified as unemployed. The CPS is designed to yield employment and unemployment statistics each month for the nation as a whole. Idaho. With a population of 1.3 million, has approximately 850 households represented in the CPS. Interestingly, South Carolina has 1,000 households represented in the CPS, with 4.0 million people. The diversity of the distribution



of Idaho's population requires a larger sample. Even with a larger per household sample, this is not enough of a sample to generate statistically accurate data for the state. To remedy this, BLS has designed a statistical model for states to use. The model uses a viable-coefficient regression method, which uses the two BLS CPS numbers — employment and unemployment. The model supplements the results from the household survey with employment data from a monthly survey of businesses (the Current Employment Statistics program) and claims data from Idaho's unemployment insurance program. Other variables include agriculture employment, population, and seasonal factors.

How Accurate is the Unemployment Rate?

For any state, the actual unemployment rate could vary up to a percentage point either side of the published rate. It is an estimate and is by no means 100 percent accurate. The only way to arrive at a completely accurate rate would be to conduct a complete census each month. This would be too costly and too time consuming. The current methodology is the result of decades of research and improvements in modeling techniques. BLS is constantly researching ways to improve the accuracy of state and local unemployment statistics, and methodologies will continue to evolve and improve over time. The current methodology is the best that is available, and for years has proven to mirror known economic developments in the state. It also enables unemployment rates of all state to be comparable.

The unemployment rate is just one of many economic indicators. It should be used in concert with other useful labor market statistics in decision making and in assessing economic trends. Because employment and unemployment statistics are estimates, they are subject to sampling variability in any given month, and temporary statistical aberrations occur. Consequently, it is best to view these data over time to determine underlying trends in the economy. A year-over-year comparison will reflect economic trends more readily than month-to-month changes.

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